

Discussion of
Sentiment and Uncertainty about Regulation
by Sinclair and Xie

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Summary

This paper constructs an original index of *Regulatory Sentiment* (and of *Regulatory Uncertainty*).

It shows that innovations in the Sentiment measure have a statistically and economically significant impact on both Industrial Production and Employment.

- ▶ Positive innovations (“happy” ones) **boost** *IP* & *L*.
- ▶ Statistically significant impact on *IP* start around 6 months
A 1σ shock raises *IP* $\sim 0.6\%$ after 12 months.
- ▶ Results seem robust to differences in construction, various controls, but *not* to replacing *IP* with *GDP*.
- ▶ Regulatory Uncertainty index has little or no signif. impact

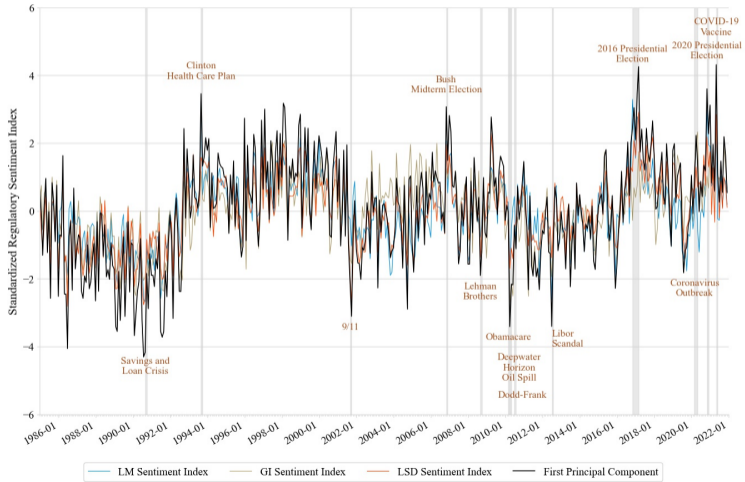
Let's focus on the Regulatory Sentiment Index

- ▶ Hamburgers and Pickles

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Selected Results I

Figure 2: Monthly Index of Regulatory Sentiment (January 1985 – December 2021)



Summary

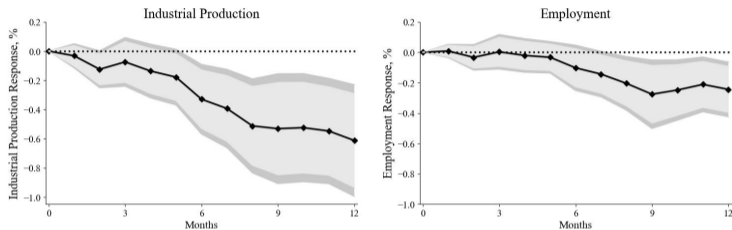
Comments

Conclusions

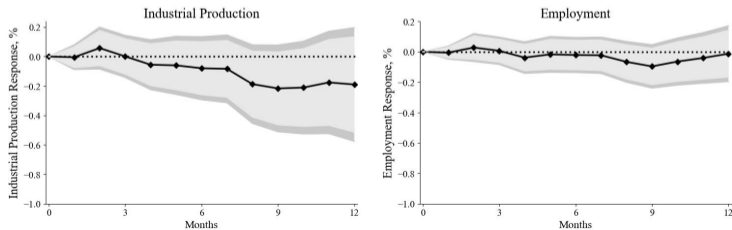
Selected Results II

Figure 4: Impulse Responses (Local Projections, Baseline)

(a) Impulse Responses to a Regulatory Sentiment Shock



(b) Impulse Responses to a Regulatory Uncertainty Shock



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New Findings Create New Questions.



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Comments II

1) “... the regulatory environment ... ”

Authors note that it *can be* due to “regulatory events” such as

- ▶ promulgation of new regs
- ▶ regulatory investigations
- ▶ a company’s regulatory violations or compliance
- ▶ lawsuits challenging regulations or govt. enforcement

Are those the majority of cases? To what extent do the Index capture

- ▶ the *economic importance* of regulatory changes?
- ▶ the (de)regulatory *zeal*?
- ▶ the regulatory *zeitgeist*?
- ▶ the *political* importance of regulation?

They seem to have found something that matters ... why?

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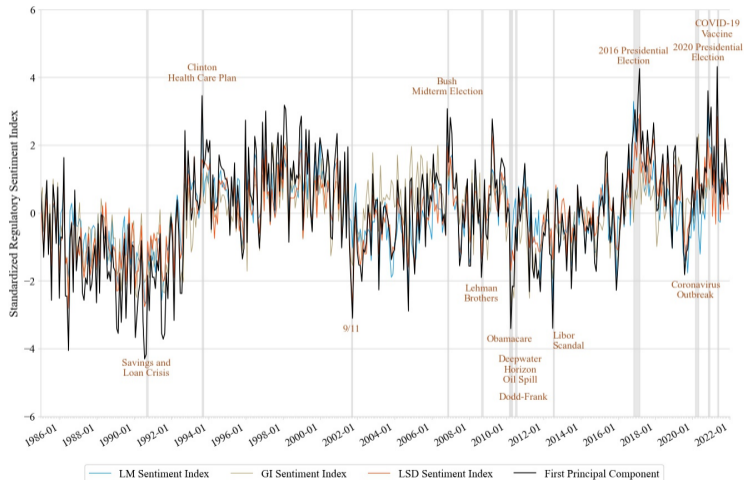
2) Which way does the sentiment index move when

- ▶ The new British PM announces she'll cap consumer energy prices? (Consumers rejoice. Financial markets crumble.)
- ▶ The US Congress passes Sarbanes-Oxley corporate accounting reform, or Dodd-Frank banking reform, or health care reform?

3) Let's think about health care reform as an example.

- ▶ 3 big regulatory initiatives
Clinton (failed), Obama (passed), Trump (failed July 2017)
- ▶ What do you think the sentiment index should show around those three events?
- ▶ Now let's look again at the index....

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(January 1985 – December 2021)



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4) Could we get a better fit by splitting the index into trends & deviations?
(or also splitting IP into trends & deviations?)

5) How much regulation is exogeneous?

- ▶ Dodd-Frank? Sarbanes-Oxley?
- ▶ Europe's sudden decisions on consumer energy price regulation?
- ▶ Mask mandates? Proof of vaccination for intl visitors?
- ▶ Bringing liquids through airport security? Removing shoes?

Should we be disentangling *exogenous* changes in regulation (e.g. appointing Mick Mulvaney & Rick Perry to the CFPB and the Dept. of Energy) from endogenous changes?

6) About the policy implications ...

1. It's often phrased as “regulatory sentiment *and uncertainty*” or “public confidence *and uncertainty*”. Really?
2. “Policymakers ... [should] consider the both incremental and cumulative economic effects of their regulations...”
Is it the economic effects of their regulations ... or the sentiment around their regulations?

“ ... the robust impulse response functions bolster our finding about the economic effects of regulatory sentiment, which suggests that our measure of regulatory sentiment reflects at least some unique information about economic activity that is not captured by general economic sentiment or policy uncertainty.”

Nice result.

I'm looking forward to work that explores this further.